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United Nations Office for Project Services budget estimates for the biennium 2016-2017

Summary

At the time of its 20th anniversary UNOPS is established as a mature organization with a clear mandate and recognized expertise in project management, infrastructure and procurement. The budget estimates for the biennium 2016-2017 are rooted in the UNOPS strategic plan, 2014-2017 (DP/OPS/2013/3). UNOPS management resources are targeted to strengthen its ability to provide partners with advisory, implementation and transactional support services in the areas of its mandate.

UNOPS stands ready to support the efforts to turn the emerging post-2015 development agenda, as articulated in the anticipated sustainable development goals and other internationally agreed goals, into reality. As part of a United Nations system that is 'fit for purpose', UNOPS delivers products and services of the highest quality in support of national and multilateral efforts to enable countries to build sustainable, just and equitable societies. UNOPS also seeks to assist countries in establishing new kinds of partnerships and accessing innovative funding sources.

The budget supports UNOPS strategic goals by dedicating resources to management results. For each result, the aspiration for the two-year period is articulated, together with the indicators of progress for which UNOPS will be held accountable.

To report on its contributions to sustainable outcomes, UNOPS will further leverage the Global Reporting Initiative guidelines. In order to better support its partners, UNOPS will dedicate resources to an organization-wide upgrade of information technology systems that will help make its business processes smarter, more agile and better integrated. The upgrade will contribute to further improving and integrating the ability of UNOPS to manage strategic and operational risks and to expand internal and external collaboration.

Following nine consecutive years of solid financial performance – including 2014 – the UNOPS operational reserve is projected to remain above the minimum requirement at the end of the current biennium, representing 7 per cent of UNOPS delivery. UNOPS therefore targets zero net revenue for the upcoming biennium. While UNOPS plans to increase its delivery and contributions to partners' results, more accurate distribution of direct costs will allow for a reduction in the management resources required to maintain UNOPS financial viability.

In preparing these budget estimates, UNOPS has worked to safeguard its financial stability as a fully self-financing service provider in the United Nations. The budget estimates of $125.6 million for 2016-2017 correspond to a 9 per cent real reduction in management resources compared to the budget estimates for the previous biennium. This is achieved by driving down indirect costs while making room for strategic investments.

Elements of a decision

The Executive Board may wish to (a) approve the net revenue target; and (b) endorse the two-year aspiration of UNOPS with respect to its management results and the targeting of resources to pursue operational excellence.

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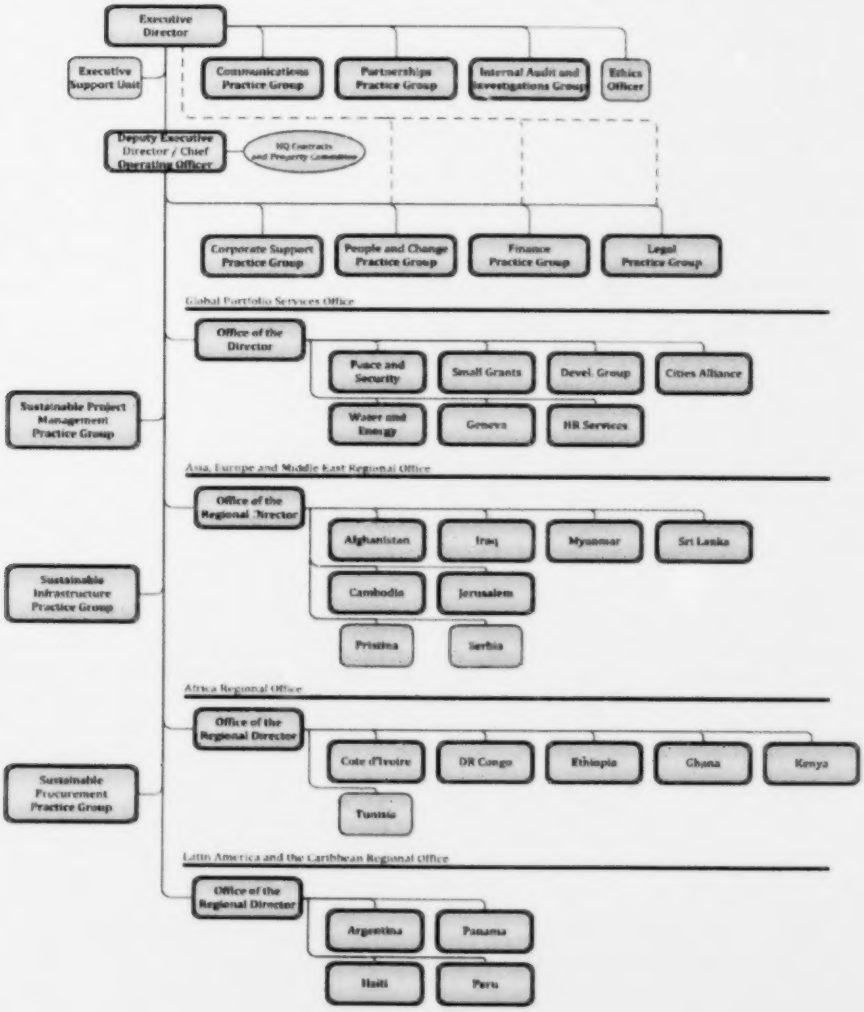
I. Strategic context

1. UNOPS is committed to United Nations coherence and contributing to sustainable results that improve the lives of people in need. It is guided by internationally agreed goals as well as the United Nations policy framework, including General Assembly resolution 67/226 on the quadrennial comprehensive policy review.

2. The UNOPS strategic plan, 2014-2017 (DP/OPS/2013/3), provides direction and focus for the organization as a valued partner for implementation, transactional support and advisory services in project management, infrastructure and procurement. It articulates what UNOPS can contribute operationally to the development, humanitarian and peacebuilding results of its partners, and how it can do so.

Figure 1. UNOPS global structure



A. UNOPS supporting the 'fit for purpose' United Nation system

3. The United Nations system as a whole is becoming 'fit for purpose' in support of the emerging post-2015 development agenda as articulated in the anticipated goals on sustainable development[1] and climate change.[2] Member States look to the United Nations system to play a major role in this regard, and UNOPS stands ready to support the United Nations system, governments and other partners, serving people in need in an efficient, sustainable manner.

4. UNOPS will continue to complement the normative mandates of United Nations partner organizations through sustainable business practices and technical knowledge on implementation, advisory and transactional support services, in accordance with its recognized expertise and mandated areas in:

(a) project management;

(b) infrastructure; and

(c) procurement.

5. As those three main pillars are continuously measured and improved against independent external standards[3], UNOPS is well positioned to support its partners in development, peacekeeping and humanitarian efforts:

6. UNOPS, in accordance with its mandate and strategic plan, is leveraging its accredited project management capacities for the benefit of its partners. Its expertise is accessible to partners in the form of training and certification. UNOPS is ready to support the High-level Committee on Management in sharing best project management practices through closer networking within the United Nations family.

7. Sustainability and resilience are connected. Sustainability incorporates impact assessments of a given project on the environment; resilience requires an analysis of the project context to establish the impact of the environment on project outcomes. UNOPS positions disaster risk reduction as a cornerstone of its mandate, since solid infrastructure – as well as procurement and project management – plays a vital role in mitigating the impact of natural hazards. At the Sendai World Conference on Disaster Risk Reduction it was announced that UNOPS would co-chair the International Recovery Platform. To this role UNOPS brings the benefits of 20 years' experience in developing resilient infrastructure systems.

8. Demonstrating its ambition to continuously improve, UNOPS became the fourth organization in the world to be awarded 'gold' status for its procurement practice under the certification standards of the Chartered Institute for Procurement and Supply. This confirms the ability of UNOPS to provide strategic added value to its partners in sustainable procurement. Another milestone was reached with the signing of a memorandum of understanding with the United Nations Secretariat, documenting areas of cooperation that include the prerogative of United Nations Secretariat key procurement practices when working in partnership.

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[1] To be defined at the Summit to adopt the post-2015 development agenda, September 2015

[2] To be defined at the United Nations Climate Change Conference, December 2015

[3] Project management certifications: Prince2, Project Management Institute, Association for Project Management; Procurement: Chartered Institute of Procurement and Supply; Infrastructure: International Federation of Consulting Engineers

9. An increasing number of people in need live in fragile states[4], and partners are looking to UNOPS as an organization with extensive experience in such settings. Pursuant to the High-level Forum agreement on a new global direction for engagement with fragile states, UNOPS has been able to deliver under challenging conditions. At the same time, with a growing overlap between poverty and fragility,[5] the distinction between humanitarian and development needs may erode. This setting will present new challenges for the United Nations system in implementing projects for the benefit of partners and people in need.

B. Leveraging UNOPS expertise for efficient, effective implementation

10. UNOPS has matured over the past 20 years. Throughout all of its projects UNOPS contributes to economic, social and environmental sustainability, both in its approach and in terms of what is achieved. UNOPS has long-standing, highly valued partnerships with the United Nations family. Proof of this are the memoranda of understanding signed with the United Nations Secretariat, UNDP, and a number of other partners. UNOPS is equally well positioned with the Member States.

11. Countries that transition from low- to middle-income status are often faced with new challenges in terms of how to achieve sustainable development. Over the last biennium, UNOPS gained understanding and built its capacity to better serve those needs. It is now in a better position to serve its partners by supporting capacity development and sustainable decision-making.

12. The need to adopt new models of cooperation, to work together across the United Nations and the public and private sectors, has never been more pressing. Led by General Assembly decisions and related United Nations guidelines[6], UNOPS is seeking to establish new partnerships with the private sector to support the achievement of internationally agreed goals.

13. Fragile states remain the farthest away from achieving development goals. UNOPS is recognized as a trusted partner, supporting efficiency and accountability through strong presence and experience in the most challenging environments. It supports capacity development beyond short-term interventions, focusing on a holistic, sustainable approach. UNOPS will use its project management skills to improve governance and provide procurement and infrastructure expertise.

C. Pursuit of organizational excellence

14. Testament to its commitment to excellence is the continuous work on strengthening the 'UNOPS excellence model'. In implementing its strategic plan, UNOPS is maturing in its use of the excellence model and is further integrating this approach into key business processes.[7]

15. UNOPS is committed to quality and to advancing progressive implementation practices for the benefit of its partners. The application and integration of international

[4] Organisation for Economic Co-operation and Development (OECD), Development Assistance Committee (DAC): Ensuring Fragile States Are Not Left Behind – 2013 fact sheet on resource flows and trends, page 1

[5] OECD, DAC: Fragile States 2014: Domestic Revenue Mobilisation in Fragile States – OECD 2014, page 19

[6] With reference to General Assembly resolutions 56/76, 58/129, 60/215 and 62/211, and the "Guidelines on Cooperation between the United Nations and the Business Sector"

[7] The implementation of European Foundation for Quality Management's concepts at UNOPS is a cornerstone to its excellence model in accordance with the UNOPS strategic plan, 2014-2017 (DP/OPS/2013/3), para. 63.

standards and best practices, for both operations and management, are central to this journey. The quality of UNOPS services is verified by the certifications that UNOPS continues to hold[8], as well as certifications associated with the areas of its mandate: procurement, infrastructure and project management. UNOPS is the first United Nations organization that has Occupational Health and Safety Management Systems [9]-certified infrastructure operations to ensure health and safety.

16. Transparency and accountability are cornerstones of the UNOPS excellence model. UNOPS co-hosts and participates in the International Aid Transparency Initiative, which uses the development sector categories of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) to display detailed information of over a thousand activities around the world. UNOPS will continue to leverage best practices and international standards to improve its results reporting, not least with regard to the sustainability of its delivery.

17. UNOPS embraces change and fosters innovation. In the course of the next biennium, its partners will benefit from the implementation of its business innovation and improvement programme. As outlined in its strategic plan, 2014-2017, UNOPS will perform a system-wide upgrade of its information technology infrastructure. The project, a change-management initiative anchored in the Executive Office and supervised by a project board, will transform the technology underpinning the UNOPS global delivery platform.

18. UNOPS will leverage information technology tools for improved knowledge-sharing and collaboration between people and among organizational entities. Improved tools for holistic performance and risk management will drive transparency and accountability. To stay ahead in a changing development landscape, UNOPS will continuously adapt in providing relevant services to its partners. This will be achieved by placing change management at the heart of the UNOPS management philosophy.

II. Financial context

A. Financing for development

19. The global financial and economic landscape is changing – a fact that has implications for the financing of global development assistance.[10] As revealed by OECD-DAC tracking, leveraging the public and private resources available for development on international and national levels will be increasingly important. The Third Conference on Financing for Development in July 2015, and the DAC considerations on measuring development finance post 2015, will be driving forces for the sector.

20. In this context, governments and public entities of developing and middle-income countries will become more important as domestic resources increase. UNOPS is well positioned to support these partners across various development sectors to work towards achieving their development goals.

21. The Secretary General has called for inclusion of the private sector in achieving the anticipated sustainable development goals.[11] Significant flows of private investment

[8] The International Organization for Standardization; ISO 9001 and ISO 14001

[9] Internationally applied British standard for Occupational Health and Safety Management Systems (OHSAS 18001)

[10] Development Assistance Committee Senior Level Meeting, 7-8 October 2014, Paris

[11] "In view of the large financing needs for sustainable development, financing must be mobilized from all sources - national, international, private and public." SG/SM/16264-DEV/3137

will be needed to drive much of the infrastructure and other development needs that underlie the goals. This will require a concerted effort to increase the available funding above and beyond traditional official development assistance. Thus, the 'fit for purpose' call also aims to channel private funding flows efficiently. UNOPS is working with private investors exploring innovative opportunities to jointly advance the sustainable development agenda, helping developing countries gain access to innovative funding sources.

22. While this work will include institutional donors and philanthropists, UNOPS seeks to work more closely with partners from the business sector. UNOPS is assessing ways in which to leverage financial resources other than official development assistance to support the sustainable development agenda. The assessment considers public-private partnerships, including ways in which UNOPS could contribute as an honest broker between governments, assisting both investors and beneficiaries. UNOPS will assess how it can help partners ensure that United Nations values will be considered when businesses invest in developing and middle-income countries.

B. Viability of the UNOPS self-financing business model

23. The viability of UNOPS as a self-financing organization requires that its revenue cover its management costs and operational risks[12]. To ensure this, UNOPS has implemented a revised client pricing policy, adhering to the principles of fair attribution of costs and full cost recovery. UNOPS applies activity-based costing principles to determine and attribute direct costs more accurately to a range of operational processes. While this has increased transparency in terms of direct cost, it has also allowed for a significant real decrease in management expense.[13] UNOPS will continue to review and revise its approach to cost recovery in line with these principles.

24. Meanwhile, through more accurate identification of the costs of various processes and services, UNOPS was able to increase its operational efficiency and effectiveness. In combination with its drive for best practices and process harmonization, this enabled UNOPS to offer its own business processes as transactional service products. In line with the strategic plan, 2014-2017, UNOPS started providing human resource-related services from its shared service centre in Bangkok. It will seek to establish new shared service modalities to improve services and achieve cost reductions for the benefit of its partners. This will support harmonization across the United Nations system and the 'delivering as one' initiative.

25. In the next biennium UNOPS will embark on a programme to improve and integrate the management of strategic and operational risks and compliance in a more cohesive manner. Being an integral part of the internal control framework, UNOPS' operational risk management will be buttressed by personnel performance management and enhanced system and process capabilities and controls. UNOPS certifications, best practices, excellence model and striving for transparency and accountability are additional pillars in this effort. Strategic risk management allows an organization to prioritize strategic alternatives and mitigation measures. It is informed by the financial and non-financial organizational performance management framework that is built around the UNOPS 'balanced scorecard' and its quarterly review process.

[12] UNOPS operates on the basis of full recovery of direct costs through cost attribution, and full recovery of indirect costs through its pricing model. Operational risks are mitigated through the creation of provisions (for concrete risks) and an operational reserve (for potential future risks).

[13] See table 3. Resource plan

26. To ensure that UNOPS is able to adapt to changes in the demand for its services, it is enhancing its forecasting tools. Together with the use of flexible workforce arrangements, this will allow the organization to shift resources when and where required to support its partners.

C. Projections reflect achievement of 2014-2015 targets

27. Projections for the 2014-2015 biennium, based on the audited financial statement for 2014 and the approved 2015 budget, show that UNOPS is likely to meet its targets as set out in the previous budget estimates. Revenue is expected to end at $145 million, surpassing the target of $139.2 million.

28. As reflected in the UNOPS financial statement, 2014, at the mid-point of the biennium UNOPS was well positioned to achieve its target of a significant real decrease in management expenses, both in real terms and relative to total delivery. Moreover, the management expense projection, of $116.4 million, is significantly lower than the target for the biennium of $131.2 million.

29. The reduced management expense is a result of the successful attribution of direct costs to a range of operational processes. This has allowed UNOPS to charge direct costs to projects more accurately, thus reducing the indirect costs to be recovered.

30. In the 2014-2015 biennium, provisions are projected to reach $13.1 million, surpassing the $8 million target. The higher level of provisions can be attributed to UNOPS presence in fragile states and the challenges faced there. From a risk-management perspective, UNOPS is following good practice in setting aside funds for likely financial implications resulting from these operations.

31. As a consequence of the increasing revenue and decreasing management expense, UNOPS expects to end the 2014-2015 biennium with a $14.2 million surplus. On the other hand, liabilities related to after-service health insurance will likely result in actuarial losses, which are expected to balance out the positive net revenue. UNOPS therefore foresees the level of the operational reserve to remain unchanged over the 2014-2015 biennium, ending at the same level as the opening balance of $82.8 million.

D. Estimates for 2016-2017 indicate full cost recovery

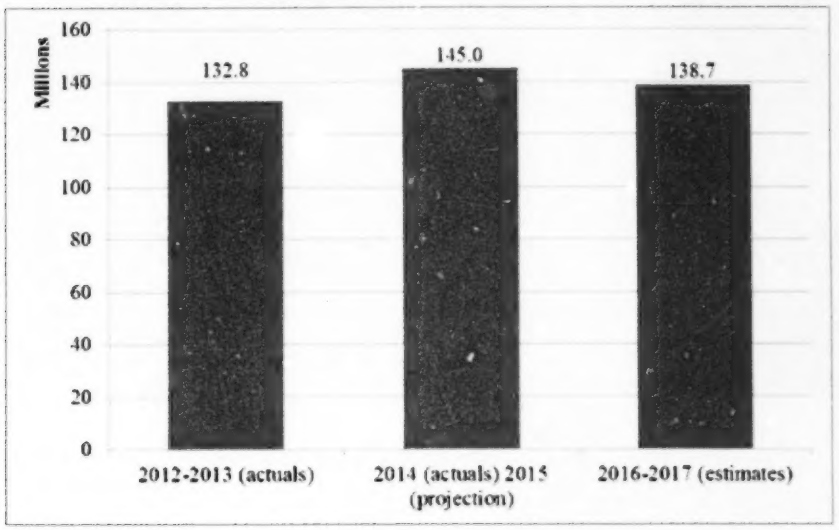
32. For the biennium 2016-2017, the revenue target is set at $138.7 million, which represents a slight decrease from the $139.2 million in previous budget estimates. Figure 2 illustrates how the projections compare with past performance. The figure shows revenue for 2014-2015 as a combination of 2014 actuals and 2015 estimates; 2016-2017 data are estimates, while data for 2012-2013 are actual financial results.

33. In 2014, UNOPS signed a memorandum of understanding with the United Nations Secretariat. In line with this memorandum, UNOPS aims to increase its collaboration with all parts of the United Nations secretariat in the next biennium. Given the economies of scale and efficiency of working in close partnership, the memorandum includes a refund programme, reducing the price of services delivered by UNOPS, provided that predefined volume thresholds are met. This, together with the reduced projections of indirect cost, explains the decreased revenue target of UNOPS for the next biennium.

34. In these budget estimates, UNOPS is targeting zero net revenue, which means that the operational reserve will remain above the required minimum at the end of the biennium.

35. Throughout the budget period, UNOPS will monitor revenue and expense patterns, and, in line with financial regulation 14.02, make adjustments to the budget as necessary to align management expenses with evolving realities. If the net revenue target is not achieved, UNOPS will reduce the operational reserve in line with its intended use according to financial regulation 22.02.

Figure 2. Revenue trends *(in millions of dollars)*



III. Management results and budget framework

36. To drive organizational excellence, UNOPS articulated four management goals in its strategic plan, 2014-2017 (DP/OPS/2013/3). The goals provide the direction for UNOPS to ensure the viability of its self-financing business model and build an organization able to realize its vision. They are:

(a) recognized value;

(b) process excellence;

(c) people excellence; and

(d) financial stewardship.

A. Management results provide a framework for pursuit of excellence

37. As reflected in figure 3, the three drivers associated with each management goal enable effective pursuit and communication of the UNOPS excellence agenda.

Figure 3. Management results framework

Balanced scorecard perspectives	Management goals	Respective drivers
Partners	A. Recognized value	• A1. Deliver world-class products and services adding sustainable value • A2. Build sustainable partnerships • A3. Communicate effectively and transparently
Business process	B. Process excellence	• B1. Manage and benchmark processes • B2. Improve process efficiency and effectiveness • B3. Innovate
People	C. People excellence	• C1. Business partnering • C2. Recruit, develop and recognize talent • C3. Embrace United Nation values
Finance	D. Financial stewardship	• D1. Ensure financial control and efficiency • D2. Cost recovery and fair distribution • D3. Invest in innovation

38. The initiatives prioritized for investment are based on an analysis of what steps UNOPS can take towards operational excellence over the next biennium, and the resources available.

Goal A. Recognized value: coordinate added value to partners

Driver A1. Deliver world-class products and services adding sustainable value

39. Given the resetting of the international development agenda in 2015, UNOPS will reposition its activities in accordance with the anticipated sustainable development goals. In that context, UNOPS will deliver services that are acknowledged, validated and appreciated by stakeholders; sustainable; and in compliance with international standards and recognized best practices – always satisfying or surpassing the expectations of partners.

40. To that end, UNOPS will focus on a clearly defined catalogue of services for which it makes targeted investments in methodologies, knowledge, tools, guidance and personnel.

41. Demand for high-quality services in project management, infrastructure and procurement is expected to continue. When delivering projects, increasing contributions to capacity development remains a priority – for example, through the implementation of a framework to support local and regional suppliers. Additionally, UNOPS is demonstrating global leadership in designing projects that incorporate resilient development outcomes, improving residual risk management capabilities and development of tools and methodologies associated with failure analysis to ensure recovery and 'build back-better'.

Driver A2. Build sustainable partnerships

42. UNOPS expects that governments in developing countries will remain its central partners, either serviced directly by UNOPS or indirectly through United Nations

partner-supported programmes. As a member of United Nations country teams, UNOPS will continue to engage within the United Nations Development Assistance Framework. UNOPS will continue to build partnerships within the United Nations system, starting with initiatives to advance collaboration involving procurement activities.

43. UNOPS will build on its experience with operations in fragile states and its partnerships with the private sector, and will focus on improving approaches for the transfer of knowledge and capacity, including through public-private partnerships.

44. UNOPS anticipates building further relationships with bilateral donor governments, regional organizations, international financial institutions, foundations and non-governmental organizations. Major drivers for this will be its key partner management approach combined with its new 'customer relationship management' system.

Driver A3. Communicate effectively and transparently

45. The ambition of UNOPS is to drive accountability for results and transparency. UNOPS has strengthened its results-based management systems and the way it reports on operational and management results. A major driver of further improvement will be its new enterprise resource planning system that will enhance its capacity to comply with open data and transparency standards and practices as well as to report in accordance with the quadrennial comprehensive policy review.

46. UNOPS is improving its ability to implement and report on sustainability leveraging the Global Reporting Initiative standards, which were developed with the support of the World Bank and endorsed by the United Nations Environment Programme.

Goal B. Process excellence: efficient, effective business processes and systems

Driver B1. Manage and benchmark processes

47. To meet the rising expectations of its partners, UNOPS will demonstrate continuous improvement in process efficiency. Its process management framework is the starting point for those improvements. UNOPS will map core business processes to the American Productivity and Quality Centre framework. Using this framework will allow benchmarking against world-class private and public organizations.

Driver B2. Improve process efficiency and effectiveness

48. A 2012 study[14] found that, in terms of agility and a number of core processes supported, UNOPS operational requirements were not adequately supported by its enterprise resource planning system. As a result it decided to implement a new system. Starting in 2016, the new system will gradually extend to cover all identified UNOPS core business processes.

49. Improved support for core business processes is a key component of the UNOPS delivery platform, resulting in timely, consistent delivery of high-quality services in every location. UNOPS has established global shared service centres, namely, the Global Shared Service Centre in Bangkok and the Integrated Practice Advice and Support unit in Copenhagen. Those centres have improved process efficiency for a wide range of transactional tasks. UNOPS continues to explore opportunities for leveraging economies of scale through shared services at global and regional levels.

[14] Performed by the Gartner Group on behalf of UNOPS

Driver B3. Innovate

50. Within its mandate, UNOPS will seek to contribute to innovation and the adaptation of best-practice standards of sustainability. This includes continued certification for environmental management and health and safety standards.[15] UNOPS will also continue to ensure that its operations are carbon neutral.

51. A substantial pool of funds for investments is made available to ensure that the UNOPS delivery platform stays abreast of increasing partner expectations. One example is the development of an e-commerce platform that will make long-term agreements with suppliers available internally, as well as to partners from the United Nations system, local governments, international non-governmental organizations and international financial institutions.

Goal C. People excellence: empowered and high-performing people

Driver C1. Business partnering

52. UNOPS will develop a skilled workforce ready to deliver on its mandate in project management, infrastructure, and procurement. It will continue to focus on building and maintaining a pool of personnel with internal and external certifications that will increase the capacity of UNOPS to respond to partner's needs.

53. To foster the required level of internal capacity to implement its core business processes effectively at all levels of the organization, a network of certified, skilled and deployable change management advisors will be created within the existing UNOPS personnel pool.

54. UNOPS will further strengthen its internal staff administration capacity by adding additional functions to the recently established shared service centre in Bangkok. UNOPS will design and conduct skills-mapping exercises, identifying present and required personnel skills and standardizing structures, processes, products, profiles and job descriptions.

55. UNOPS will invest in further enhancing the 'individual contractor agreement' modality to respond to partners' needs and increase its competitiveness in attracting and retaining personnel with relevant skills and competencies. The organization will investigate potential benefits when implementing a standard cost approach for charging personnel cost.

Driver C2. Recruit, develop and recognize talent

56. UNOPS aims to be an employer of choice for the best talent. The implementation and strengthening of policies, tools, practices and systems that support recruitment and performance management will therefore continue. Part of this will be to establish candidate pools to respond to internal and external partners in a timely manner. 'On-boarding' programmes will drive performance of newly recruited personnel and senior leaders. UNOPS will use targeted outreach strategies to continually improve its position as an employer.

[15] ISO-14001 and OHSAS-18001

57. UNOPS provides a range of professional development courses and external certifications based on recognized international standards. The organization is developing an internal certification scheme that will provide expertise on the UNOPS business process framework. To assume leadership in mandated and selected areas, and to be known as a source of dedicated, effective leaders, UNOPS will continue to identify, nurture and develop its present and future cadre of senior managers.

58. The UNOPS recognition awards and merit rewards programme will be maintained and developed to strengthen the motivation of personnel. Personnel engagement is measured through an annual survey, the findings of which are used in developing the organization.

Driver C3. Embrace United Nations values

59. UNOPS will continue to promote an organizational culture and personnel behaviour aligned with United Nations core principles and values. It will support United Nations initiatives, provide access to system-wide training, ensure completion of mandatory courses, and support the resident coordinator programme.

60. UNOPS will further strengthen its gender results and will continue to assess its progress using the United Nations System-wide Action Plan on Gender Equality and the Empowerment of Women as a benchmark.

Goal D. Financial stewardship: finances managed for development effectiveness

Driver D1. Ensure financial control and efficiency

61. UNOPS ensures accountability for resources entrusted to it while helping partners exercise their own accountability. It believes that transparency is essential for the efficient use of resources.

62. UNOPS seeks a governance structure based on shared values, allowing for sound judgment within clearly articulated accountability and control frameworks. This enables entities and teams to regulate their performance without micromanagement. UNOPS will optimize its control framework in line with its global structure.

63. To optimize planning and resource allocation, UNOPS will improve the relevance and timeliness of financial information. A timely financial closure, performed monthly, is a key component of financial control and efficiency. Building on its new information technology systems, entities will be able to prepare regular updates of rolling forecasts for key financial parameters. Each entity, and the organization as a whole, will thus be able to improve the way resources are prioritized and meet changing business realities.

Driver D2. Cost recovery and fair distribution

64. UNOPS takes a two-pronged approach to ensuring the stability of its self-financing model. First, it consistently attributes direct costs to their respective drivers, in accordance with activity-based costing principles. This ensures that costs are distributed more accurately among internal and external projects.

65. Second, UNOPS uses a pricing model for the recovery of indirect costs that includes relevant cost-drivers associated with the value added by UNOPS. This distributes costs fairly to projects and reduces the risk associated with changes in the composition of the UNOPS project portfolio. By deemphasizing the cost recovery associated with handling resources, UNOPS creates incentives to focus contributions where it adds most value for partners while encouraging the use of national systems.

Driver D3. Invest in innovation

66. UNOPS is committed to investing part of its revenue into innovation and partnerships. The resources will be focused according to its management goals. An example for the next biennium is the overhaul of the information technology infrastructure.

B. Resources targeted and organization aligned to achieve results

67. UNOPS has developed its budget for the biennium 2016-2017 in alignment with the harmonized presentation adopted by UNDP, UNFPA and UNICEF, based on decisions 2010/32, 2011/10, 2012/27, and 2013/9, in which the Executive Board approved the harmonized approaches for cost-classification, results-based budgeting and budget presentation. Due to the self-financing business model of UNOPS, two years is seen as the most relevant planning horizon in terms of revenue and costs.

68. The UNOPS organizational structure allows efficiency and effectiveness in service delivery to partners and clearly defines global functions, authorities and accountabilities. The results and budget framework for the biennium 2016-2017 is directly aligned with UNOPS global structure as revised in early 2015 (figure 1).

69. This section describes UNOPS management results and budget framework through the lens of the seven harmonized functional clusters. Table 1 provides key performance indicators, with associated baselines and targets, as well as resources per functional cluster.

Table 1. Targets and resources for management results, by functional cluster

Harmonized functional cluster	Performance indicator	Baseline	Target 2016-2017	2016-2017 management resources
Leadership and corporate direction	Achievement of net revenue target approved by the Executive Board	100% (2014)	100%	$15.3 million
	Share of UNOPS offices assessed that are successful in maintaining external certifications	100% (2014)	100%	
Corporate external relations and partnerships, communications and resource mobilization	Increase in new and extended partner agreements from identified key partners	$724 million (2014)	15%	$24.3 million
	UNOPS compliance with IATI* standards	100% (2014)	100%	
Country office oversight, management and operations support	Share of projects regularly assessed against UNOPS criteria for successful projects	93% (fourth quarter 2014)	100%	$30.9 million
Corporate human resources management	Overall personnel engagement	To be determined	To be determined	$9.4 million
	Share of women in UNOPS global management team	31% (2014)	35%	
Staff and premises security	Evaluated offices compliant with minimum operating security standards	92% (2014)	90%	$0.3 million
Corporate financial information and communications technology and administrative management	Maintain unqualified audit opinion for each year of the biennium	100% (2012-2013)	100%	$38 million
Corporate oversight and assurance	Share of required personnel filing financial disclosure	100% (2014)	100%	$7.4 million

*IATI = International Aid Transparency Initiative

Leadership and corporate direction

70. *Definition*. The 'leadership and corporate direction' harmonized functional cluster corresponds to the UNOPS 'strategic management and leadership' global function, which is performed by UNOPS global management team.

71. *Issues and narrative*. This cluster articulates the accountability of the Executive Director to the Executive Board for implementing the strategic plan, 2014-2017, and relevant targets for management results in the biennial budgets. The global function reflects the responsibility for leadership and support for further adoption of UNOPS values throughout the organization.

72. Supported by performance management tools and frameworks, the global function enables the Executive Director to hold managers accountable for their achievement of management results and contribution to operational results.

73. *Accountability and funding level*. Strategic management and leadership is funded in all entities of the global structure. Accountability lies with the Executive Office as well as senior management across the organization. The estimated funding level is $15.3 million.

Corporate external relations and partnerships, communications and resource mobilization

74. *Definition*. The 'corporate external relations and partnerships, communications and resource mobilization' harmonized functional cluster comprises two UNOPS global functions: 'business development' and 'communications'.

75. *Issues and narrative*. As UNOPS is maturing in managing its external relations, the Partnerships Practice Group was created in 2014 to drive the development and expansion of new and existing partnerships in collaboration with all UNOPS practices and regional entities. Highlighting the relevance of reaching out to Member States, donors and recipient governments, both the Partnerships and Communications practice groups report directly to the Executive Director.

76. The Partnership Practice Group works with regional and country office management on business development activies, while establishing a key partner management framework that allows UNOPS to meet partners' needs on a global scale.

77. *Accountability and funding level*. Accountability is shared among the Partnerships Practice, the Communications Practice, and management across UNOPS regional entities. The estimated funding level is $24.3 million.

Field/country office oversight, management and operations support

78. *Definition*. The 'field/country office oversight, management and operations support' harmonized functional cluster comprises four of the UNOPS global functions: project management, infrastructure, procurement, and legal.

79. *Issues and narrative*. The three UNOPS delivery practices ensure that its products and services are developed to create optimum, recognized value and are produced, delivered and managed using sustainable approaches, while the knowledge and skills of their practitioners are aligned and strengthened.

80. Project management is the primary UNOPS modality for delivering value, both externally and internally. The project management function ensures that all projects apply UNOPS project management methodology to ensure high quality, speed, and cost-effective results.

81. UNOPS has a well-established role in designing and delivering physical infrastructure systems, and will strengthen its delivery capabilities and position in this area. UNOPS places disaster risk reduction for resilience at the core of efforts to contribute to the United Nations goal of building a sustainable, resilient future, ensuring that programming and project design are risk-informed.

82. Increased focus on development effectiveness entails greater emphasis on efficient, sustainable public procurement. UNOPS will establish a framework that will support capacity development for local and regional suppliers.

83. UNOPS dedicates resources to providing advice, training and development of guidance on the implementation of UNOPS policies, particularly for delivery and management practices. The legal support provided by Integraied Practice Advice and Support is an example of recent steps to integrate shared services.

84. *Accountability and funding level*. Accountability lies with management across UNOPS regional entities, the infrastructure paractice, the project management practice, the procurement practice, the legal practice, Integrated Practice Advice and Support, and all functions involved with transactional services, process support and records maintenance in support of operations. The estimated funding level is $30.9 million.

Corporate human resources management

85. *Definition*. The 'corporate human resources management' harmonized functional cluster covers the UNOPS global 'human resources' function.

86. *Issues and narrative*. UNOPS has established a Global Shared Service Centre in Bangkok as well as Integrated Practice Advice and Support unit in Copenhagen to provide personnel related services on a global scale with increased efficiency. For the biennium 2016-2017 UNOPS is especially targeting to further increase the share of personnel administration managed through the Centre.

87. In order to attract high-caliber candidates , UNOPS will invest in improving its brand as an employer through targeted outreach programmes. Efforts will be continued to ensure a successful 'onboarding' of new personnel and continuous developlement throughout their time with UNOPS.

88. *Accountability and funding level*. Accountability for policy lies with the People and Change Practice Group, whereas operational implementaion is shared with the Global Shared Service Centre and Integrated Practice Advice and Support. The estimated funding level is $9.4 million.

Staff and premises security

89. *Definition*. The 'staff and premises security' harmonized functional cluster covers the UNOPS global security function.

90. *Issues and narrative*. Security is vital for the implementation of UNOPS projects. The bulk of those costs are covered directly by relevant projects.

91. *Accountability and funding level*. Accountability lies with UNOPS personnel at headquarters and in the field, in accordance with the framework for accountability for the United Nations security management system. The UNOPS Chief of Security, in the Corporate Support Practice Group, is charged with monitoring UNOPS compliance with United Nations management policies on behalf of the Executive Director. The estimated funding level from the management budget is $0.3 million.

Corporate financial, information and communications technology, and administrative management

92. *Definition*. The 'corporate financial, information and communications technology and administrative management' harmonized functional cluster comprises three UNOPS global functions: 'finance', 'information and communications technology', and 'general administration'.

93. *Issues and narrative*. Building on demonstrated achievement of financial results, UNOPS will continue to ensure the stability of its self-financing model. UNOPS will maintain appropriate controls and integrity in accordance with relevant international standards. As a first step in its effort to increase the efficiency of its support processes UNOPS has consolidated financial and administrative task for three global practice groups in the Integrated Practice Advice and Support unit and will continue to do so in the coming biennium.

94. Information and communications technology supports UNOPS business processes as well as its delivery of products and services. Generally managed by the Corporate Support Practice Group, for the next biennium the new information technology infrastructure will be implemented through the Business Innovation and Improvement Programme. UNOPS will continue to strengthen the articulation and implementation of administrative policies and procedures. UNOPS will also continue to leverage synergies amongst United Nations organizations in UN City, Copenhagen.

95. *Accountability and funding level*. Accountability lies with the Finance Practice Group, the Corporate Support Practice Group and the Business Innovation and Improvement Programme. The proposed funding level is $38 million.

Corporate oversight and assurance

96. *Definition*. The 'corporate oversight and assurance' harmonized functional cluster comprises the following UNOPS global functions: internal audit and investigations, contract and property review, and ethics, as well as the the Strategic Advisory Group of Experts and the Audit Advisory Committee.

97. *Issues and narrative*. The Internal Audit and Investigations Group will continue to assist UNOPS management in assessing and improving the adequacy, efficiency and effectiveness of its control systems, business practices and use of resources to achieve results. The group provides the Executive Director and UNOPS governing bodies with assurance on governance, risk management processes, and internal controls.

98. UNOPS Ethics Office assists the Executive Director in promoting the highest standards of integrity and fostering a culture of ethics, transparency and accountability in UNOPS to ensure that all personnel conduct themselves with professionalism and uphold the Charter of the United Nations. The Strategic Advisory Group of Experts and the Audit Advisory Committee provide the Executive Director with external, independent advice.

99. UNOPS will continue to exercise assurance on its procurement function. The process will be made more efficient through the deployment of institutional tools, incentives for preparing high-quality submissions, and process automation.

100. *Accountability and funding level*. Accountability lies with the Internal Audit and Investigations Group, the Executive Chief Procurement Officer, the Headquarters Contracts and Property Committee, and the Ethics Office. This functional cluster includes costs associated with external oversight provided by the United Nations Board of Auditors and the Joint Inspection Unit. The estimated funding level is $7.4 million.

IV. Budget estimates for the biennium 2016-2017

101. As a self-financing organization, the viability of UNOPS requires that its revenue match its management costs. The biennial revenue target of $138.7 million thus serves as a frame for the UNOPS management budget, 2016-2017.

102. UNOPS targets a 9 per cent real decrease in management resources for the biennium 2016-2017 compared to the previous biennium. The $138.7 million budget estimates comprise $125.6 million in management resources and an earmarking for potential provisions in the amount of $13.1 million. By comparison, in its 2014-2015 budget estimates, UNOPS budgeted for $131.2 million in management resources and earmarked $8 million for potential provisions.

A. Reducing management resources while increasing efficiency and effectiveness

103. The average effect of inflation for 2016-2017 is estimated at 2.6 per cent per year,[16] reflecting the combined impact of a 1.8 per cent annual inflation rate at headquarters and a 3.4 per cent average annual inflation rate for all other locations.

104. The overall reduction in management resources reflects efforts on the part of UNOPS to curtail costs through increased efficiency and effectiveness, offsetting the increase otherwise required, as well as continued efforts to charge relevant costs as direct, in line with the definitions in UNOPS financial rules and regulations.

105. The estimated provisions are based on the desire to earmark sufficient funds for potential risks. The expected increase can be attributed to the presence of UNOPS in fragile states, and the increased risks associated with projects under such conditions. Earmarking funds to cater for adverse events and unforeseeable circumstances is an element of the UNOPS multilevel approach to risk management.

B. Flexible personnel force aligned with strategy

106. Table 2 provides an overview of UNOPS senior posts for the 2016-2017 budget estimates.

107. The changes in director-level positions document the maturation of UNOPS as an organization. They reflect an increased effort on the part of UNOPS to further strengthen delivery practices in its mandated areas of operation. They also represent an effort to improve the UNOPS outreach strategy so as to elevate its profile in the development community, as well as with stakeholders at large. The changes reflect a gradual build-up of institutions around the UNOPS mandated areas of competence and organizational core functions.

108. The use of the 'individual contractor agreement' modality has provided UNOPS with the flexibility required by its self-financing model. At the same time, the stability of the organization relies on a core number of fixed staff positions. This is reflected in the overall level of staff posts proposed for the next biennium, ensuring that organizational knowledge and core competencies are retained.

109. The planned number of management-funded staff posts for 2016-2017 is the same as the actual status as of mid-2015 and can be found in table 5. Table 5 also provides additional detail to the information in table 4, which presents the breakdown of the

[16] The estimated rates are derived from the International Monetary Fund.

budget estimates for 2016-2017 compared to the projected cost for 2014-2015 by expenditure category. It is notable that over the next biennium UNOPS does not plan any changes in staff posts compared to the actual status as of mid-2015. The only increase in the staff budgets are anticipated for cost increases due to inflation.

Table 2. Senior staff posts funded by management budget

	USG/ASG	D-2	D-1	Total
2014-2015 posts	2	8	19	29
Headquarters changes	0	3	-2	1
Region and partner services changes	0	0	1	1
Total changes	0	3	-1	2
2016-2017 posts	2	11	18	31

C. Other non-staff costs remain stable

110. The opportunities for efficiency gains leveraged by UNOPS in the biennium 2014-2015 led to a 2016-2017 budget envelope lower than the estimate for 2014-2015. At the same time it leaves increased flexibility in terms of resource allocation for example for investments.

111. As described, UNOPS has an ambitious agenda for the implementation of its new information technology infrastructure. The additional $3 million for contractual services, travel, and operating expenses, constitute the support that will be required beyond the 2014-2015 projections to implement the various features in the coming biennium.

112. The UNOPS plans for zero real growth in connection with furniture/equipment and reimbursements, as in 2014-2015. Its operations have been restructured and adjusted to the current organizational settings.

113. Over the next biennium UNOPS will continue to make management resources available for allocation throughout the year in response to requirements and opportunities. Resources will be managed in a rapid, transparent and results-oriented manner, with direct involvement from senior management. Decisions to allocate resources will be based on business cases submitted, and will be assessed according to criteria aligned with the UNOPS strategy, with a focus on innovation for sustainability.

D. Investments to support the implementation of the anticipated sustainable development goals

114. The management resources target for 2016-2017 includes additional investments in technology. UNOPS is in the process of a system-wide upgrade that will transform its technological foundation into a more efficient, integrated set of processes. The new enterprise resource planning system will enable UNOPS to offer smarter, more effective solutions to help partners achieve their objectives.

115. In addition to investments in technology, UNOPS will invest in the development of relevant products and services to support sustainable development, building partnerships with governments, organizations and private actors, as well as strategic business development. UNOPS is committed to ensuring that a substantive amount of the annual management budget will be dedicated investment funds. UNOPS continues to improve internal transparency and accountability on those investments, and ensures that results are achieved that benefit partners and people in need.

Table 3. Resource plan

(in millions of dollars)

	2014-2015 Budget estimates	2014 (actuals) and 2015 (projection) [17]	2016-2017 Budget estimates
Resources available			
Operational reserve beginning of period	**62.9**	**82.8**	**82.8**
Total revenue on budget basis [18]	139.2	145.0	138.7
Total available	202.1	227.8	221.5
Use of resources			
Management resources	**131.2**	**116.4**	**125.6**
Provisions	8.0	13.1	13.1
Total use of resources	139.2	129.5	138.7
Balance of resources			
Net revenue on budget basis	0.0	15.5	0.0
Budget basis to IPSAS* reconciliation [19]	-	-1.3	-
Surplus for the period on IPSAS basis	-	14.2	-
Operational reserve at end of period	**62.9**	**82.8**	**82.8**

* IPSAS = International Public Sector Accounting Standards

[17] The operational reserve held by UNOPS as of 31 December 2013 stood at $82.8 million. UNOPS realized a net surplus in 2014 amounting to $9.9 million, while at the same time a deficit of $14.2, arising from an actuarial valuation of employee benefits at year-end, was recognized in the statement of changes in net assets, resulting in an operational reserve balance of $78.5 million. Details are included in the UNOPS audited financial statement for 2014. It is projected that UNOPS will generate a surplus for the period of $4.3 million in 2015, resulting in an estimated operational reserve balance of $82.8 million as of 31 December 2015.

[18] The total revenue on budget basis includes the income from management fee (total revenue for the period) and net finance income as per statement V of the UNOPS financial statements.

[19] The reconciliation for the budget to IPSAS surplus is as per Note 23 of the UNOPS financial statement. It is necessary reconcile the budget-based surplus to the IPSAS surplus, as the latter is affecting the operational reserve level as per statement III of the UNOPS financial statements.

Table 4. Budget estimates, by expense category

(in millions of dollars)

Expense category	2014 (actuals) 2015 (projection)	Volume increase		Cost increase amount $	2016 -2017 budget estimates
		Amount in dollars	Percentage[20]		
Posts	33.3	-	0.0%	1.8	35.1
Common staff costs[21]	19.5	-	0.0%	1.0	20.5
Travel	8.0	0.4	5.1%	0.4	8.8
Consultants[22]	38.9	2	5.1%	2.1	43.0
Operating expenses[23]	12.4	0.6	5.1%	0.7	13.7
Furniture and equipment	2.1	-	0.0%	0.1	2.2
Reimbursements	2.2	-	0.0%	0.1	2.3
Total expenses	**116.4**	**3.0**	**2.6%**	**6.2**	**125.6**

Table 5. Staff posts funded by management budget, by category and location[24]

	2016-2017 budget estimates		
	Headquarters	Regions and partner services	Total
USG/ASG	2	0	2
D-2	7	4	11
D-1	4	14	18
Other international professionals	43	47	90
All others	18	25	43
Total	**74**	**90**	**164**

[20] Percentages are based on exact numbers

[21] Includes costs allowances, insurances and learning costs.

[22] Includes 'individual contractor agreements', local and international consultants, contractual services and company contracts.

[23] Includes general operation expenses, hospitality, rental, utility, maintenance and miscellaneous expenses.

[24] The total current number of staff posts supervised by UNOPS, funded by direct and indirect cost, has remained stable at approximately 500 posts since mid-2013, when the previous budget estimates were presented. Pursuant to the General Assembly request reflected in the Quadrennial Comprehensive Policy Review in 2012 (A/RES/67/226) for the United Nations development system to "pursue reductions in management costs in the effort to minimize the necessary cost recovery rate within the existing budget framework", the UNOPS strategic plan commits the organization to "consistently attribute direct costs of the organization to projects as appropriate. (...) This will ensure that costs are distributed more accurately among projects and should enable UNOPS, over time, to reduce the overall amount needing to be recovered as indirect costs." During the 2014-2015 biennium UNOPS has followed that direction and continued to ensure that shared project services are correctly attributed as direct costs to projects. Consequently, the costs of posts previously recovered as indirect costs have now been budgeted as direct project costs to ensure accurate cost recovery. A total of 138 staff posts currently provide shared project services and are thus fully or partially attributed as direct cost to projects.